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AZ CORP COMMISSION
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June 18, 2001

VIA HAND DELIVERY

Ms. Marta Kallenburg
Utilities Division
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

*Re: Network Operator Services, Inc.: Financial Information
Docket No. T-02679A-92-0190*

Dear Marta:

Enclosed for your information is the 1999 audited financial statement for Network Operator Services, Inc., as well as the most current financials for this year. Please call me if you have any questions.

Sincerely,

Michael W. Patten

MWP:djj
Enclosure

Arizona Corporation Commission

DOCKETED

JUN 18 2001

DOCKETED BY	
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FOR THE FOUR PERIODS ENDED APRIL 30, 2001

	YEAR TO DATE	
	ACTUAL	%
REVENUE		
GROSS SALES	7,163,762.50	
RETURNS, ADJUSTMENTS & OTHER	(7,159.41)	
TOTAL REVENUE	7,156,603.09	100.0
COST OF SALES		
COMMISSIONS	3,201,101.70	
OPERATOR EXPENSE	1,431,641.29	
TELEPHONE FACILITY	711,759.59	
BILLING & COLLECTIONS	1,126,143.65	
TOTAL COST OF SALES	6,470,646.23	90.4
GROSS PROFIT	685,956.86	9.6
SALES, GENERAL, & ADMINISTRATIVE		
ADMINISTRATIVE PAYROLL	752,471.07	
LEGAL, CONSULTING, MGMT	115,217.81	
FACILITY	178,723.96	
ADVERTISING & MARKETING	140,823.52	
TAXES, LICENSE, & FEES	31,395.24	
OTHER	161,280.57	
TOTAL OPERATING EXPENSES	1,379,912.17	19.3
NET INCOME FROM OPERATIONS	(693,955.31)	(9.7)
OTHER INCOME AND EXPENSE		
DEPRECIATION EXPENSE	(163,340.29)	
INTEREST - SHAREHOLDER & OTHER	(90,321.46)	
ASSET DISPOSITION GAIN/LOSS	3,133,585.55	
INVESTMENT INCOME/LOSS	18,052.59	
TOTAL OTHER INCOME AND EXPENSE	2,897,976.39	40.5
EARNINGS BEFORE INCOME TAX	2,204,021.08	30.8
NET INCOME (LOSS)	2,204,021.08	30.8

PROPRIETARY INFORMATION
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ASSETS

CURRENT ASSETS		
CASH & EQUIVALENTS	(24,419.18)	
ACCOUNTS RECEIVABLE (NET)	4,594,485.55	
PREPAID EXPENSES	58,739.63	
DEPOSITS	265,354.29	
	<hr/>	
TOTAL CURRENT ASSETS		4,895,160.29
LONG TERM ASSETS		
NOTES RECEIVABLE	180,907.72	
INVESTMENTS	1,391,330.16	
FIXED ASSETS (NET)	1,678,856.24	
	<hr/>	
TOTAL LONG TERM ASSETS		3,251,094.12
TOTAL ASSETS		<hr/> <u>8,146,254.41</u>

LIABILITIES AND EQUITY

CURRENT LIABILITIES		
ACCOUNTS PAYABLE TRADE	3,571,149.64	
ACCRUED PAYROLL	245,224.62	
ACCRUED PREPAID TELEPHONE		
	<hr/>	
TOTAL CURRENT LIABILITIES		3,816,374.26
LONG-TERM LIABILITIES		
NOTES PAYABLE		
	<hr/>	
TOTAL LONG-TERM LIABILITIES		.00
OTHER LIABILITIES		
INTERCOMPANY PAYABLES	488,228.93	
	<hr/>	
TOTAL OTHER LIABILITIES	488,228.93	
TOTAL LIABILITIES		<hr/> 4,304,603.19
EQUITY		
SHAREHOLDER NOTES PAYABLE	1,499,213.01	
PAID IN CAPITAL	437,793.15	
RETAINED EARNINGS	1,904,645.05	
	<hr/>	
TOTAL EQUITY		3,841,651.21
TOTAL LIABILITIES AND EQUITY		<hr/> <u>8,146,254.40</u>

PROPRIETARY INFORMATION
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NETWORK OPERATOR SERVICES, INC.

FINANCIAL STATEMENTS
As of December 31, 1999 (Audited)
and 1998 (Unaudited)

PROPRIETARY INFORMATION
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PUBLIC DISCLOSURE

FRANK TAGGART & CO.

**A PROFESSIONAL CORPORATION
CERTIFIED PUBLIC ACCOUNTANTS
1807 JUDSON ROAD
LONGVIEW, TEXAS 75605
(908) 758-0801 • FAX (908) 757-4308**

To the Board of Directors,
Network Operator Services, Inc.:

We have audited the accompanying balance sheet of Network Operator Services, Inc. (An S Corporation) as of December 31, 1999, and the related statements of income, changes in shareholders' equity and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit of the balance sheet in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether these financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Network Operator Services, Inc. as of December 31, 1999, and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting principles.

The 1998 financial statements were compiled by Network Operator Services, Inc. and have not been audited or reviewed. Therefore, no opinion or other form of assurance is expressed on them.

Frank Taggart & Co.

Longview, Texas
August 25, 2000

PROPRIETARY INFORMATION
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NETWORK OPERAT

BALANCE

December 31,

ASSETS

	1999	1998 (Unaudited)
CURRENT ASSETS:		
Cash (Note 1)	\$ 3,615	\$ 567
Marketable equity securities (Notes 1 & 2)	28,095	34,824
Accounts receivable (Note 6):		
Trade, less allowances for billing, collection and doubtful account costs of \$738,239 and \$823,538, respectively	5,038,999	2,626,414
Other	33,267	14,990
Inventory (Notes 1 & 6)	119,753	43,737
Prepaid expenses	143,037	311,807
Notes receivable from shareholders, officers and directors (Note 8)	401,867	551,414
Notes receivable from others - current portion (Note 4)	92,599	975,800
Leases receivable - current portion	59,780	61,358
Total current assets	5,921,812	4,821,011
PROPERTY AND EQUIPMENT, at cost (Notes 1, 6 & 9):		
Leasehold improvements	83,801	56,043
Machinery and equipment	2,123,945	2,007,105
Transportation equipment	181,462	129,511
Office furniture and equipment	2,698,243	2,534,514
Total property and equipment	5,087,451	4,727,173
Less accumulated depreciation	(4,074,101)	(3,541,585)
Net property and equipment	1,013,350	1,185,588
OTHER ASSETS:		
Notes receivable from others, net of current portion of \$92,599 and \$975,800 in 1999 and 1998, respectively (Note 4)	1,681	195,047
Deposits	26,799	4,151
Leases receivable, net of current portion of \$59,780 and \$61,358, in 1999 and 1998, respectively	70,974	67,967
Investments (Notes 1 & 5)	1,945,624	3,489,397
Total other assets	2,045,078	3,756,562
TOTAL ASSETS	\$ 8,980,240	\$ 9,563,161

PROPRIETARY INFORMATION
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See accompanying "Independent Auditor's Report"

FOR SERVICES, INC.FINANCIAL STATEMENTS

, 1999 and 1998

LIABILITIES AND SHAREHOLDERS' EQUITY

	1999	1998 (Unaudited)
CURRENT LIABILITIES:		
Accounts payable	\$ 3,537,150	\$ 2,838,164
Cash overdraft	2,268,654	-
Other accrued expenses	409,250	226,072
Current maturities of long-term debt (Notes 6 & 11)	16,846	3,867,505
Taxes payable	137,016	135,178
Accrued payroll	187,735	60,066
Accrued compensated absences	221,904	140,372
Unearned income	25,682	24,428
Accrued interest payable	23,345	-
Accrued commissions	372,917	15,827
Total current liabilities	\$ 7,200,499	\$ 7,307,612
LONG-TERM DEBT:		
Long-term debt, net of current maturities of \$16,846 and \$3,867,505 in 1999 and 1998, respectively (Notes 6 & 11)	2,608,073	3,086,076
Total long-term debt	2,608,073	3,086,076
Total liabilities	9,808,572	10,393,688
CONTINGENT LIABILITIES (NOTE 12)		
SHAREHOLDERS' EQUITY:		
Common stock, \$1 par value, 10,000 shares authorized, issued and outstanding	10,000	10,000
Additional paid-in capital	427,793	427,793
Retained earnings	(1,247,719)	(1,256,751)
Unrealized depreciation on marketable equity securities (Notes 1 & 2)	(18,406)	(11,569)
Total shareholders' equity	(828,332)	(830,527)
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 8,980,240	\$ 9,563,161

PROPRIETARY INFORMATION
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NETWORK OPERATOR SERVICES, INC.

STATEMENTS OF INCOME

For the Years Ended December 31, 1999 and 1998

	<u>1999</u>	<u>1998</u> <u>(Unaudited)</u>
Net revenues	\$ 36,874,022	\$ 77,488,890
Cost of sales	<u>29,941,860</u>	<u>72,932,569</u>
Gross profit	6,932,162	4,556,321
Operating expenses	5,057,101	6,386,922
Depreciation expense	<u>532,516</u>	<u>630,484</u>
Income (loss) from operations	1,342,545	(2,461,085)
Other income (expense)	<u>(1,333,513)</u>	<u>(62,136)</u>
NET INCOME (LOSS)	<u>\$ 9,032</u>	<u>\$ (2,523,221)</u>

PROPRIETARY INFORMATION
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See accompanying "Independent Auditors' Report" and notes to financial statements.

NETWORK OPERATOR SERVICES, INC.

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the Years Ended December 31, 1999 and 1998

	<u>Common Stock</u>		<u>Additional</u>	<u>Retained</u>	<u>Unrealized</u> <u>(Depreciation)</u> <u>Appreciation</u> <u>on Marketable</u> <u>Equity</u> <u>Securities</u>	<u>Total</u> <u>Shareholders'</u> <u>Equity</u>
	<u>Shares</u>	<u>Amount</u>	<u>Paid-in</u> <u>Capital</u>	<u>Earnings</u>		
BALANCE - December 31, 1997	10,000	\$ 10,000	\$427,793	\$ 1,266,470	\$ (14,132)	\$ 1,690,131
Net loss (unaudited)	-	-	-	(2,523,221)	-	(2,523,221)
Change in unrealized depreciation of marketable equity securities (unaudited)	-	-	-	-	2,583	2,583
BALANCE - December 31, 1998 (unaudited)	10,000	10,000	427,793	(1,256,751)	(11,569)	(830,527)
Net income	-	-	-	9,032	-	9,032
Change in unrealized depreciation of marketable equity securities	-	-	-	-	(6,837)	(6,837)
BALANCE - December 31, 1999	10,000	\$ 10,000	\$427,793	\$ (1,247,719)	\$ (18,406)	\$ (828,332)

PROPRIETARY INFORMATION
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See accompanying "Independent Auditors' Report" and notes to financial statements.

NETWORK OPERATOR SERVICES, INC.

Statements of Cash Flows - Indirect Method

For the Years Ended December 31, 1998 and 1999

	1999	1998 (Unaudited)
OPERATING ACTIVITIES:		
Net income (loss)	\$ 9,032	\$ (2,523,221)
Noncash items affecting net income (loss):		
Losses from joint ventures, affiliates and equity securities	834,837	142,759
Write-downs on investments	891,888	213,342
Depreciation	532,518	830,484
Cash from (used for) operating working capital:		
Receivables	(2,238,498)	6,138,807
Prepaid expenses and other assets	144,885	(355,505)
Inventory	(78,018)	(24,850)
Accounts payable and accrued expenses	3,743,548	(3,038,899)
Net cash from (used for) operating activities	3,802,093	1,182,817
INVESTING ACTIVITIES:		
(Loans) collections on notes receivable	1,032,948	(517,945)
Net (investments in) distributions from joint ventures and affiliates	56,947	(269,280)
Sales of marketable equity securities	-	167,839
Net additions to property and equipment	(360,278)	(171,888)
Net cash from (used for) investing activities	729,617	(800,955)
FINANCING ACTIVITIES:		
Net borrowings (payments) on notes payable	(4,328,862)	(381,595)
Net cash used for financing activities	(4,328,862)	(381,595)
CHANGE IN CASH	3,048	87
CASH:		
Beginning of year	587	500
End of year	\$ 3,615	\$ 587

See accompanying "Independent Auditors' Report" and notes to financial statements.

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JUN 10 2001 8:04AM RE WORK COMMUNICATIONS NO. 7430-11

NETWORK OPERATOR SERVICES, INC.

Notes to Financial Statements

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Network Operator Services, Inc. (the "Company") provides operator assisted services (for calling card, collect, person-to-person and third-party billing calls) to hotels, motels, hospitals, colleges and other private pay telephone owners throughout the continental United States and Mexico. The Company also operates as a full-service, switch-based, long-distance carrier currently providing direct-dial, long-distance, voice messaging and telephone system sales and installation services for residential and commercial users primarily in East Texas. In addition, the Company distributes and sells long distance prepaid telephone calling cards to retail and wholesale customers.

BASIS OF ACCOUNTING -

The financial statements of the Company are prepared using the accrual basis of accounting whereby revenues are recognized when earned and expenses are recognized when incurred. The basis of accounting conforms to generally accepted accounting principles.

USE OF ESTIMATES -

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

CASH EQUIVALENTS -

For the purpose of the statement of cash flows, the Company considers all investments with a maturity of three months or less to be cash equivalents.

INVENTORY -

Inventory is stated at the lower of cost or market, on the first-in, first-out method.

PROPERTY, PLANT AND EQUIPMENT -

Depreciation on property, plant and equipment is computed using accelerated methods over the estimated useful lives of the related assets, which range primarily from five to seven years. Maintenance and repairs are expensed as incurred. Expenditures for renewals and betterments are generally capitalized.

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NETWORK OPERATOR SERVICES, INC.

Notes to Financial Statements - continued

INVESTMENTS IN MARKETABLE EQUITY SECURITIES -

Investments in marketable equity securities are stated at estimated fair values based on quoted market prices. These investments are classified as available for sale, and the change in their unrealized appreciation (depreciation) is included in shareholders' equity until realized.

INVESTMENTS IN JOINT VENTURES AND AFFILIATES -

Investments in joint ventures and affiliates are stated at the Company's equity interests in the related partnerships or in 20% or more owned corporate operations, or at cost for the Company's interest in other entities, less write-downs for any loss in value that is other than a temporary decline.

REVENUES -

Revenues are recognized when calls are made. Accounts receivable include revenues generated from calls completed through the Company's operator systems, which primarily are billed and collected through local exchange carriers ("LECS"). At the time of revenue recognition, an allowance for billing and collection fees to be charged, as well as the estimated allowances for doubtful accounts, is provided for the estimated settlement ("true-up") for actual chargebacks and other deductions made by the LECS from remittances to the Company, based on historical experience. The true-up for actual chargebacks is typically made within six months. Also, the related telecommunications expenses are accrued for the costs of telephone services provided by the carriers and for commissions due under operator service agreements.

FEDERAL INCOME TAXES -

Federal income taxes are not provided, as the Company has elected S Corporation status under the Internal Revenue Code, with profits and losses reported by the shareholders in their individual income tax returns.

CASH -

The Company maintains bank accounts on a regular basis with balances exceeding the \$100,000 insured limit.

PROPRIETARY INFORMATION
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NETWORK OPERATOR SERVICES, INC.

Notes to Financial Statements - continued

(2) MARKETABLE EQUITY SECURITIES:

Marketable equity securities represent investments in common stocks of New York Stock Exchange companies. Estimated fair values based on quoted market prices and cost at December 31, 1999 and 1998, are as follows:

	<u>1999</u>	1998 (Unaudited)
Estimated fair value	\$28,085	\$34,933
Cost	<u>46,502</u>	<u>46,502</u>
Unrealized depreciation	<u>\$(18,407)</u>	<u>\$(11,569)</u>

(3) ACCOUNTS RECEIVABLE AND SIGNIFICANT CUSTOMERS:

Accounts receivable from the larger telephone companies and others, which provide billing and collection services to the Company, as a percentage of total net accounts receivable at December 31, 1999 and 1998, are as follows:

	<u>1999</u>	1998 (Unaudited)
Company A	1%	32%
Company B	9%	14%
Company C	43%	0%

PROPRIETARY INFORMATION
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NETWORK OPERATOR SERVICES, INC.

Notes to Financial Statements - continued

(4) NOTES RECEIVABLE -

Notes receivable from others at December 31, 1999 and 1998, consist of the following:

	<u>1999</u>	<u>1998</u> <u>(Unaudited)</u>
Unsecured demand note receivable from limited liability company, bearing interest at 11%	\$ 29,057	\$ 592,058
Unsecured note receivable from customer, bearing interest at 12%, due March 1999	-0-	1,846
Unsecured demand note receivable from affiliated company, bearing interest at 12%, due October 1999	-0-	10,000
Unsecured note receivable from customer, bearing interest at 12%, due October 1999	-0-	8,890
Unsecured note receivable from 22% equity interest affiliate, bearing interest at 14%, due on demand (Note 5)	-0-	230,000
Unsecured demand note receivable from supplier, bearing interest at 12%	-0-	100,000
Unsecured note receivable from an employee of an affiliate, bearing interest at 8%, receivable in monthly installments of \$503 through July, 2002.	12,395	17,229
Unsecured demand note receivable from customer, bearing interest at 18%	-0-	681
Unsecured note receivable from customer, bearing interest at 10%, due January, 2000.	-0-	39,681
Unsecured demand note receivable from customer, bearing interest at 10%	52,828	-0-
Unsecured demand note receivable from affiliate, bearing interest at 12% (Note 5)	-0-	170,462
	94,280	1,170,847
Less: current maturities	(92,599)	(975,800)
Total	<u>\$ 1,681</u>	<u>\$ 195,047</u>

PROPRIETARY INFORMATION
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NETWORK OPERATOR SERVICES, INC.

Notes to Financial Statements - continued

(5) INVESTMENTS IN JOINT VENTURES AND AFFILIATES:

Investments in joint ventures and affiliates at December 31, 1999 and 1998, consist of the following:

	<u>1999</u>	<u>1998</u> <u>(Unaudited)</u>
Real estate partnerships:		
Irving, Texas - 25% limited partnership interest	\$ -0-	\$ 280,046
Carrollton, Texas - 15% limited partnership interest	190,013	173,955
Frisco, Texas - 60% limited partnership interest	229,784	187,407
Other real estate partnerships - 3.4% to 30% limited partnership interest (Note 7)	85,080	159,743
Other investments:		
Pay telephone company located in Jacksonville, Texas - 22% common stock interest (Note 4)	-0-	286,725
Pay telephone company located in Dallas, Texas - 11% common stock interest	256,000	600,002
Software development company - 5% common stock interest	-0-	300,000
Internet access provider - 85% interest in this limited liability corporation in 1998, 100% interest in 1999 (Note 4)	156,152	74,341
Oil and gas partnership - 3.3% limited partnership interest	-0-	59,368
CID Comunicaciones, S.A. de C.V. - 100% common stock interest	<u>1,028,595</u>	<u>1,367,810</u>
	<u>\$1,945,624</u>	<u>\$3,489,397</u>

PROPRIETARY INFORMATION
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NETWORK OPERATOR SERVICES, INC.

Notes to Financial Statements - continued

(6) LONG-TERM DEBT -

Long-term debt payable by the Company at December 31, 1999 and 1998 consisted of the following:

	<u>1999</u>	<u>1998</u> <u>(Unaudited)</u>
Notes payable to shareholders and relatives of shareholders, bearing interest from 9% to 18%, collateralized by accounts receivable, and subordinated to the bank line of credit, due January 2001	\$2,608,074	\$2,986,077
\$3,000,000 Bank line of credit, bearing interest at prime rate plus .5%, collateralized by accounts receivable and equipment, and guaranteed by certain officers of the Company, due March 1999	-0-	2,510,000
Prime plus 2% note payable to factoring company, to be repaid through future collections on trade accounts receivable collections	16,845	605,268
10% note payable to unrelated entity, to be repaid through future commission payments	-0-	435,293
Prime plus .75% note payable to financial institution, collateralized by equipment, payable in monthly installments of \$46,000, through August 1999	<u>-0-</u>	<u>416,944</u>
Total long-term debt	2,624,919	6,953,581
Less: current maturities	<u>(16,846)</u>	<u>(3,867,505)</u>
Long-term debt, net of current maturities	<u>\$2,608,073</u>	<u>\$3,086,076</u>

Maturities of long-term debt are as follows:

<u>Year Ending</u> <u>December 31</u>	<u>Amount</u>
2000	\$ 16,845
2001	2,608,074
2002	-0-
2003	-0-
2004	-0-
	<u>\$2,624,919</u>

PROPRIETARY INFORMATION
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NETWORK OPERATOR SERVICES, INC.

Notes to Financial Statements - continued

(7) LEASE COMMITMENTS:

The Company leases its primary office facility under an operating lease with a real estate partnership in which the Company has an ownership interest (Note 5). Rental expense under the operating lease was \$215,661 and \$217,440 in 1999 and 1998, respectively. Future minimum rental payments under this noncancellable operating lease as of December 31, 1999, are as follows:

2000	\$216,222
2001	<u>72,074</u>
Total	<u>\$288,296</u>

(8) RELATED PARTY TRANSACTIONS:

Revenues - Amounts received which are attributable to the Company's relationship with an affiliate and included in net revenues for the years ended December 31, 1999 and 1998, were \$421,397 and \$345,249, respectively.

Commissions paid to related parties were approximately \$303,709 and \$180,232 in 1999 and 1998, respectively.

Interest paid to shareholders and relatives of shareholders was \$158,133 and \$209,936 in 1999 and 1998, respectively.

Cost of sales - Amounts paid to related parties and included in cost of sales for the years ended December 31, 1999 and 1998, were \$6,216,992 and \$4,233,927, respectively.

Notes receivable from shareholders, officers and directors at December 31, 1999 and 1998, consist of the following:

	<u>1999</u>	<u>1998</u> <u>(Unaudited)</u>
Non-interest bearing notes receivable due from shareholders, collateralized by equity interests held by the shareholders in a telecommunications entity.	\$ 381,667	\$ 531,414
Non-interest bearing demand note receivable due from shareholder.	<u>20,000</u>	<u>20,000</u>
Total	<u>\$ 401,667</u>	<u>\$ 551,414</u>

Trade accounts receivable - Amounts due from related parties in the normal course of business and included in trade accounts receivable at December 31, 1999 and 1998, were \$740,811 and \$52,085, respectively.

Trade accounts payable - Amounts due to related parties in the normal course of business and included in trade accounts payable at December 31, 1999 and 1998, were \$821,544 and \$2,651, respectively.

PROPRIETARY INFORMATION
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NETWORK OPERATOR SERVICES, INC.**Notes to Financial Statements - continued****(9) SUBSEQUENT EVENTS:**

Effective March 31, 2000, the Company entered into an asset purchase and exchange agreement whereby the Company sold its switched access long distance telephone customer base and exchanged dialer equipment for payphones under section 1031 of the Internal Revenue Service Code. The sales price for the switched access long distance telephone customer base was \$1,893,000, subject to certain minimum revenue guarantees for the six month period ending June 30, 2000. A down payment of \$250,000 was paid upon the closing of the transaction, with the remaining balance payable in six consecutive monthly installments of \$273,835, beginning May 1, 2000. To date, \$1,095,340 has been received relative to this remaining balance due.

Subsequent to year end, the Company entered into a purchase contract and bill of sale, whereby the Company sold assets related to its telephone system leasing and sales division. The Company has divested itself of this line of business. The total sales price for the sale of miscellaneous telephone equipment, tools, inventory and vehicles was \$81,237.

In June, 2000, the Texas State Comptroller's office initiated a sales tax audit of the Company, covering the period from January, 1997, through March, 2000. A sales tax liability of approximately \$97,000 is currently proposed by the State Comptroller's office. It is management's belief that this proposed assessment is overstated due to unresolved issues currently in dispute. Management believes that the ultimate liability will approximate \$50,000. This anticipated liability has been reflected in the accompanying financial statements.

(10) EMPLOYEE BENEFIT PLAN:

The Company provides a defined contribution plan for substantially all of its full-time employees. Employees are eligible to participate in this 401(k) plan after one-half year of service. Under the plan, participants may contribute up to 15% of their compensation, of which the Company will match 25% of the first 4% contributed. Matching contributions of \$20,661 and \$21,394 were made during 1999 and 1998, respectively.

(11) LINE OF CREDIT:

During 1999, the Company obtained a \$1,700,000 line of credit bearing interest at 8.5%. The line is collateralized by accounts receivable and equipment, and guaranteed by certain officers of the Company, maturing January, 2001. No outstanding balance existed on this line of credit as of December 31, 1999.

(12) CONTINGENT LIABILITIES:

During 1999, a breach of contract suit was filed against the Company by a corporation owned by ex-employees of the Company. The plaintiffs in this case are seeking damages in the amount of \$294,080. This claim is being contested, and the amount of ultimate liability, if any, is undeterminable as of December 31, 1999. Therefore, no liability with respect to this contingency is reflected in the accompanying financial statements.

PROPRIETARY INFORMATION
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